

22 March 2022

Productivity Inquiry  
Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601

Lodged online at: [pc.gov.au](http://pc.gov.au)

Dear Productivity Commission,

## **SUBMISSION TO AUSTRALIA'S PRODUCTIVITY PERFORMANCE INQUIRY**

I welcome the opportunity for Infrastructure Victoria to make this submission to Productivity Commission's (the Commission's) Inquiry into Australia's Productivity Performance (the Inquiry).

How the nation manages, plans, and invests in its infrastructure significantly affects the economy's productivity. As the Commission states, "productivity is one of the most important drivers of Australia's living standards."<sup>1</sup>

Infrastructure Victoria's submission introduces our recent work relevant to the Inquiry. We highlight areas which can drive substantial productivity gains: transport infrastructure pricing, project assessment, freight network optimisation, and integration of land use planning and transport. Our work on the short and medium term impacts of COVID-19 is also instructive on the possible future spatial structure of our cities and has implications for productivity.

### **Transport infrastructure pricing**

Transport infrastructure pricing reform can provide significant productivity boosts across the economy. Prosperity and productivity partially rely on public and private transport moving smoothly on road and rail networks, creating reliable and efficient movements of people and goods. Managing demand and achieving maximum efficiency from existing infrastructure can improve its productivity and effectiveness.

Victoria's current transport prices provide few incentives for people to make travel choices that consider their effect on others, similar to other Australian jurisdictions. Fixed charges for motorists mean drivers pay the same regardless of how often and at what time they access the road network. Similarly, while public transport operating costs vary by mode, distance travelled, and time of day, Melbourne's public transport fare structure does not reflect these costs.

Pressure on transport networks will worsen as population grows. Trips will become longer, less comfortable and more unreliable, costing people and businesses time and money. In Victoria, road congestion could cost \$10.2 billion a year by 2031 as drivers face longer journeys with increasingly unpredictable travel times.<sup>2</sup>

Infrastructure Victoria has undertaken considerable research on transport network pricing reforms. It shows comprehensive pricing reforms for roads, public transport and parking is the most effective way to reduce congestion and get the most from the transport system. Transport network pricing would replace fixed upfront charges and uniform fares with flexible prices set to encourage travel at times, to places, and by modes that generate the greatest benefits relative to costs, taking the impact of an individual's use on others into account.

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<sup>1</sup> <https://www.pc.gov.au/inquiries/current/productivity/call-for-submissions/productivity-inquiry-call-for-submissions.pdf>

<sup>2</sup> <https://www.infrastructurevictoria.com.au/report/2-3-steer-changes-in-travel-behaviour/>

Infrastructure Victoria encourages the Commission to consider transport network pricing as a priority reform to achieve productivity gains.

More information on Infrastructure Victoria's work on transport network pricing can be accessed at:

*Victoria's infrastructure strategy 2021 – 2051*

<https://www.infrastructurevictoria.com.au/report/2-3-steer-changes-in-travel-behaviour/>

*Transport Network Pricing*

<https://www.infrastructurevictoria.com.au/project/research-transport-network-pricing/>

### **Project assessment to maximise impact**

Australia will require new major transport projects, and new social and environmental infrastructure, to support rapidly growing communities and reduce social disadvantage. Selecting the right infrastructure at the right time can support economic productivity and ensure people can access the infrastructure and services they need for their social and economic wellbeing.

In our *Major transport program strategic assessment report* we applied an innovative assessment framework to transport infrastructure projects. Our assessment framework applied a multi criteria analysis, an expanded economic evaluation that considers land use changes, a broader social, environmental and economic assessment, and consideration of distributional impacts.

Our report *Infrastructure Priorities for the Regions* also provides frameworks for prioritising potential infrastructure solutions so they meet specific regional challenges and opportunities. This includes a comparative advantage framework to identify investment priorities that build on regions' unique economic advantages to activate regional growth and productivity opportunities.

Applying these approaches more broadly, and conducting detailed feasibility studies and business cases before announcing new infrastructure projects, will help ensure projects are chosen which best enhance productivity and community wellbeing.

More information on our approach to project assessment can be accessed at:

*Major transport program strategic assessment report*

<https://www.infrastructurevictoria.com.au/wp-content/uploads/2021/08/Major-Transport-Program-Strategic-Assessment-Report.pdf>

*Infrastructure Priorities for the Regions*

<https://www.infrastructurevictoria.com.au/project/research-infrastructure-priorities-for-the-regions/>

### **Freight network optimisation**

Ports and freight terminals are critical for prosperity and productivity. Businesses will continue to need strong and flexible connections to their domestic and international customers, including through freight terminals and ports, to remain competitive.

Infrastructure Victoria's *Advice on securing Victoria's ports capacity* found that the Port of Melbourne's capacity needs to grow over coming decades to provide exporters reliable, cost-effective access to markets and keep costs low for importers. *Victoria's infrastructure strategy* also recommends optimising the productive capacity at the Port of Melbourne, while actively managing the negative amenity impacts on nearby communities. Our recommendations on freight will help keep goods moving as efficiently as possible, which subsequently keeps business costs down, maximises trade, and drives productivity.

Our work on freight productivity can be accessed at:

*Victoria's infrastructure strategy 2021 – 2051*

<https://www.infrastructurevictoria.com.au/report/3-2-improve-freight-efficiency-for-industry-competitiveness/>

**Infrastructure Victoria**

Level 33, 140 William St, Melbourne 3000 | T (03) 9936 1737 [infrastructurevictoria.com.au](https://www.infrastructurevictoria.com.au)

*Advice on securing Victoria's ports capacity*

<https://www.infrastructurevictoria.com.au/project/securing-victorias-ports-capacity/>

## **Integrated land use and transport planning**

Integrated land use and infrastructure planning is a powerful tool which can influence the shape, structure, economic, social, and environmental performance of a city. Integrated approaches promote higher productivity, greater social interaction and a more sustainable urban footprint.

Our report *Growing together* notes that building more homes in well-located areas can generate productivity effects, connecting people and businesses more readily. Closer connections mean businesses can more easily find customers, access more workers and share more knowledge and resources. Concentrated, specialised and diverse businesses compete more fiercely, adapt more quickly to economic shocks, and generate fertile ground for innovation in ideas and technologies. These drivers create more jobs and businesses, improve productivity, and give people more opportunities to find jobs suiting their talents.

Planning land use and infrastructure together also encourages development in places that can accommodate growth and where the required services and infrastructure can be delivered. Our *Infrastructure provision in different development settings* report found that it can be two to four times less expensive to provide infrastructure for new homes in established areas rather than new suburbs, excluding transport costs.

Infrastructure Victoria's work on these issues can be accessed at:

*Victoria's infrastructure strategy 2021 – 2051*

<https://www.infrastructurevictoria.com.au/report/2-1-integrated-land-use-and-infrastructure-planning/>

*Growing together: The case for better integration of land use and infrastructure planning in established areas*

<https://www.infrastructurevictoria.com.au/wp-content/uploads/2020/12/Growing-together-December-2020-1.pdf>

*Infrastructure Provision in Different Development Settings*

<https://www.infrastructurevictoria.com.au/project/research-infrastructure-provision-in-different-development-settings/>

## **The impact of COVID-19**

The Inquiry's terms of reference ask the Commission to consider the forces shaping Australia's productivity challenge as a result of the COVID-19 pandemic and policy response. Infrastructure Victoria has examined the short and medium term effects of COVID-19 in our reports: *Transporting Melbourne's Recovery* and *The post-pandemic commute*.

*Transporting Melbourne's Recovery* found Melbourne's roads could become heavily congested in the short term, as people avoided public transport due to fears of infection. Recent experience confirms these projections with car congestion in Melbourne approaching pre-pandemic levels.<sup>3</sup>

Our report *The post-pandemic commute* takes a longer term view of the COVID-19 pandemic's effects on Victoria's cities and regions, especially if people work from home more often. When people can work from home some days each week, our modelling projects they are willing to tolerate longer commutes on their days in the office. This means outer suburbs, new growth areas, and the peri-urban rural areas of Melbourne could experience faster population growth than they otherwise would.

Our modelling also projects that more working from home tends to accelerate jobs growth in inner Melbourne, while other areas see marginally slower jobs growth. With a more dispersed population,

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<sup>3</sup> <https://www.theage.com.au/national/victoria/traffic-jams-are-back-as-commuters-shun-public-transport-20220303-p5a1ca.html>

some businesses would locate where they can access the largest workforce catchment, while also accessing agglomeration benefits by being physically close to each other.

This stream of work can be accessed at:

*Behaviour Change Impacts of COVID-19*

<https://www.infrastructurevictoria.com.au/project/behaviour-change-impacts-of-covid-19/>

We hope this submission is of use to the Commission and we will follow the Inquiry with interest. If we can be of further assistance during the Inquiry, please contact me or Mr Llewellyn Reynders, Director of Research and Economics, on 0427 557 841 or at [llewellyn.reynders@infrastructurevictoria.com.au](mailto:llewellyn.reynders@infrastructurevictoria.com.au).

Yours sincerely,

Dr Jonathan Spear

**Chief Executive Officer**